

Earnings Conference Call Transcript

Event: Bharti Airtel Limited Second Quarter and Year Ended September 30, 2014 Earnings Call

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Bharti Airtel Limited Second Quarter and Year Ended September 30, 2014 Earnings Call**CORPORATE PARTICIPANTS****Srikanth Balachandran**

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UBS - Singapore

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PRESENTATION**Shareena - Moderator**

Good afternoon, ladies and gentlemen, I am Shareena, the moderator for this conference. Welcome to the Bharti Airtel Limited Second Quarter Ended September 30, 2014 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for all the participants on this call. Present with us on the call today is the senior leadership team of Bharti Airtel Limited. Before I hand over the call, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now hand over the call to our first speaker of the day, Mr. B. Srikanth, Global CFO. Thank you and over to you, Mr. Srikanth!

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

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Good afternoon ladies and gentlemen. Thank you for joining us today on this Earnings call to discuss our results for the second quarter and half year ended September 30, 2014, which we announced yesterday.

Let me first introduce you to the senior leadership team of Bharti Airtel who are present with me on the call today. We have Gopal Vittal, the CEO of India and South Asia, we have Nilanjan Roy, who is the CFO of India and South Asia, we have Christian De Faria, CEO of Africa, Jaideep Paul, CFO of Africa and Harjeet Kohli, Group Treasurer and Head of Investor Relations.

Firstly, let me share a few thoughts on the on the external environment. On the regulatory front in India, there is a strong convergence of views that is now emerging. The government wants to usher in a digital India with far reaching and deep compact on every citizen through the medium of internet. The Telecom Regulatory Authority of India has also given its recommendations of auction of spectrum for licenses expiring in 2015 and 2016. It is imperative now that more Spectrum and specifically more contiguous spectrum is made available for the auction. There is also a visible momentum on the payment banking space. Various stakeholders have provided feedback on the draft Reserve Bank guidelines and we now await the final guidelines from the Reserve Bank. As India's leading mobile operator, with a deep distribution reach, loyal customer base and the lowest churn, we are uniquely positioned to leverage on this opportunity.

Now, let me turn to the key company developments. You are aware of the announcement in the previous quarter regarding the divestment of 3100 towers in four African countries. In the second quarter, we announced yet another agreement for the divestment of over 3500 telecom towers across six African countries to Eaton Towers. We have been the pioneers and strong proponents of Telecom Infrastructure sharing and these agreements are an extension of that philosophy. This will lead to far superior utilizations of passive infrastructure and enable cost efficiencies in Infrastructure Management, Energy and Logistics. It will also allow us to focus on our customer facing business operations. This divestment at the same time would enable us to deleverage through debt reduction and significantly reduce the Company's ongoing capital expenditure on passive infrastructure. We will, of course, continue to have full access to the towers from Eaton and a long-term lease contract.

This agreement is of course, subject to statutory and regulatory approvals in the respective countries, which we expect to obtain in due course of time. As and when the approvals are in place, the transfers will take place in each country. The transactions will then be accounted for and the new leases will take shape. We will, of course keep all of you updated with more details at that point of time. We are also inclined to consider tower divestments in more countries subject to evaluation and competitor rental pay.

The second highlight of the quarter was Airtel's stake sale in Bharti Infratel. We raised about \$ 340 million through an offer for sale in Bharti Infratel. The OFS got a tremendous global response and was oversubscribed by 2.4 times leading to this being the largest OFS from the Indian private sector. As you all know, this was done to meet the minimum public shareholding norm in Bharti Infratel. As per the listing requirement, Airtel had to bring its share down to 75% by December 2015 but the company was able to meet all the regulatory requirements well in advance and now has a stake of 74.86% in Infratel. The one-time impact of this transaction has been disclosed in the Quarter 2 accounts. A gain of Rs. 12.81 billion has been directly recognized in retained earnings as per the IFRS accounting treatment.

So, the first highlight of the quarter is on the data side. While we continue to talk about value, volume growth later, but on the qualitative side, we have expanded on 4G coverage with the launch of LTE services in Nasik. Airtel now offers 4G across 15 cities in the country. We are the pioneers in the 4G space in India and we have seen good uptake so far and are hopeful of accelerated growth in the near future. We are also the first operators in the country to introduce an OTT app WYNK music, which is now the number one in the category of new free apps for music and among the top five apps overall in the Google play store.

Airtel is also the sole operator to be part of Google's android one devices strategy. Airtel will offer free data plans bundled with handsets. These devices will ensure rapid penetration of affordable high speed handsets across the country.

Finally, we are very pleased to launch 3G services in our 16th African country, Chad. We hope to roll out 3G in the last country, which is Niger shortly and that will mark our 3G presence in all the countries that we operate in. As you all know, Africa is witnessing the beginning of an internet boom and we are well poised to participate in this round of growth.

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Next, I want to highlight two reporting changes in this quarter's results announcement. Beginning this quarter, we have designated a significant portion of the Euro denominated borrowing as a hedge against net investment in subsidiary in five countries in Africa where the local currency is pegged to the Euro. Such hedge accounting is permitted under IFRS and will minimize volatility in the income statement. Any foreign exchange gain or loss on the hedging instrument relating to effective portion of the hedge is recognized in other comprehensive income to offset the change in the value of the net investments being hedged. During this quarter, the foreign exchange gain of Rs. 11,716 million, which is roughly \$192 million have therefore been recognized in other comprehensive income.

Secondly, starting this quarter, any non-routine regulatory levies or finance incomes have been reclassified from license fees, which is above EBITDA to other expenditures, which is below EBIT in order to better reflect good governance and transparency in real operating results. In this quarter, such non-operating other expenses amounted to Rs. 1.2 billion. The figures for the prior periods have also been reinstated to make them comparable to the present period.

Let me now dwell on the company's operating metrics. While Quarter 2 is a seasonally weak quarter, we are happy to note that India mobile revenues only dropped 1% this quarter versus the 2.1% decline witnessed during Quarter 2 last year. You have seen and will continue to see that our strategy is sharply focused on revenue generation. The interplay of various metrics, such as churn, usage, rates and mix has to be seen in the context of our single-minded focus on revenue growth well complimented by profitability focus. The input costs for Telecom sector are increasing e.g. Spectrum cost, CapEx and there are more auctions on the anvil. To sustain the health of this sector, it is imperative that over a longer period we see pricing power return to operators and we continue to believe that over a secular basis it should continue to inch up. However, these rates may not follow the same trajectory quarter-on-quarter specifically during a seasonally weak quarter such as Q2 as has been the case in India.

Also, one has to be competitively focused at all times in a dynamic market. This quarter, our voice RPM has gone down though only marginally by less than 1% to Rs. 37.69; however, this is definitely an increment to the realization that we had 12 months back. For a healthy market and industry, we also need to see the elimination of wastage and trade spends through quality of acquisition. As market leader, we have been continuously driving towards elimination of wastage and we will continue to do so. Though the churn in Quarter 2 increased to 3.1% from 2.7% in the previous quarter, this is more due to dormancy in the marketplace witnessed in a seasonally weak quarter. We have the lowest churn rate in the industry and it will be our endeavor to keep it within the 2% - 3% range.

On Data, I am very happy to reiterate that data revenues continue to bolster with a double digit quarter-on-quarter growth momentum. Data now contributes 14.5% of mobile revenues as against 9.4% in the corresponding quarter last year in India. The data consumption has increased by 22% sequentially and by 95% on a year-on-year basis continuing the trends that we have been witnessing over the last several quarters. We are happy that more of our 2G customers, have moved up to 3G; more interesting is the way customers are showing strong acceptance of 4G services in the 15 cities where we have pioneered 4G. Data ARPU is up 17% year on year at Rs.150 at such early level is just about 5% short of the much more mature voice ARPU, again bearing testimony to the demand for data. This we believe is still at a very initial stage of data revenue pool development. The dip in data pricing has to be seen in the context of emerging customer behavior. More customers are signing up for plans rather than going in for volume based charging. The results are evident in the form of the upsurge in volumes, data ARPU improvement and data revenue growth. Though in the short term, this equation may result in the mathematical realization dipping down a bit.

I am delighted to note that in Africa also the data story is unfolding. Mobile data is now 10% of the total revenues in Africa. Our robust 3G network has supported the doubling of data volumes year on year and we have been gearing up for much more growth.

Airtel money transaction values in Africa have also crossed \$1 billion a month. More than 5 million customers are now carrying out a daily average of 1.4 million transactions on Airtel Money. Non-voice revenues in Africa are now almost 24% of the total revenues and our growth at 42% year on year in local currency terms. This is now the bedrock of our growth model in Africa.

Now moving on to the quarter's financial results; let me start with the growth statistics. Consolidated revenues increased by 7.1% year on year in rupee terms. Within the portfolio, India revenues grew by 12.3% which is a healthy trend even though it was a seasonally weak quarter. In the last six quarters, India's year-on-year revenue growth has steadily inched up from 6% to now 12.3%. In this quarter, mobile data in India

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grew by 74% to Rs. 18 billion and now accounts for over 14.5% of our total mobile revenues. Digital TV also grew by 23.5%, helped by healthy trends in ARPU and adoption of high definition services by customers. Telemedia also grew 15% year on year as the data growth story plays out in that segment as well. As you can see, data and entertainment have now become the engines of growth in India.

Africa revenues in currencies of the respective countries grew year on year by 6.2% though currency depreciation resulted in the reported growth coming in at 1.9%. Net revenues, which are the true reflection for the underlying performance, after netting off access charges and cost of goods, grew 7.2% in constant currency terms. While we continued to grow our customer base, our volume, and the data and the customer base and grew minutes, mobile data revenues have grown by 57% year on year, to cross \$115 million in this quarter. Messaging and VAS services have also grown and their revenues have grown by 13.3% year on year. Overall, we are leading revenue market share in nine countries and we are placed number 2 in five other countries.

Let me now talk about margins. The company's consolidated EBITDA margin has stayed firmly at 33.7%. This is healthy in the context of the competitive environment and it is also an improvement of 150 basis points in one year.

India's EBITDA margins improved by 320 basis points year on year and 20 basis points sequentially. This improvement over the last four quarters reflects the benefits of operating leverage, flowing from sustained top line growth and our efforts on improving OpEx productivity. With significant investments on the ground, our scale offers the single biggest opportunity for margin improvement.

As far as Africa is concerned, we are pushing for growth. I am sure Christian will cover in detail about the temporary nature of issues that we are grappling with but our efforts to improve the quality of network, improve brand visibility and retail presence for more data usage and stimulate m-commerce adoption are all as per our planned strategy to build a strong platform for sustained growth. These initiatives have resulted in OpEx outlays at a steady level. We are focused on participating in the growth opportunity in Africa and we therefore continue to lead those investments there. We are optimistic that the acceleration of revenues will yield operating leverage soon. Of course, there is more work to be done and we continue to stay focused on improving profitability through top line growth.

Coming back to the consolidated company P&L, the overall shape of growth is encouraging. While the year on year revenue growth in rupee terms was 7.1%, this was accompanied by 12.1% growth in EBITDA and 31.3% growth in EBIT.

Consolidated net finance cost during the quarter, were much lower at Rs. 9 billion. The overall ForEx and derivative losses came in at Rs. 2.2 billion partly due to the African currencies weakening and partly due the softer rupee, neutralized to some extent by the gains on the Swiss-Franc bonds.

Consolidated profit before tax and exceptional items during the quarter stood at Rs.29.97 billion which reflects the growth of over 100% year on year. The effective tax rate in India including the impact of dividend distribution taxes, have improved to 26.5% for the half year compared to 29.1% in the last full year. But for this one-off charge, Africa's net loss would have been lower than \$100 million for the quarter.

Exceptional items during the quarter resulted in the net charge of Rs.1.58 billion. These mostly pertain to one-off integration of networks and restructuring in some countries, the benefits of which will flow in the coming quarter and for one-off dispute settlements. The final consolidated net income after exceptional items was Rs. 13.8 billion, which is an increase of 170% year on year. The annualized earning per share based on this quarter's net income is Rs. 13.85.

Let me now talk about our CapEx. In Quarter 2, we spent almost Rs.37 billion, which translates to \$616 million. This includes \$349 million in India and South Asia and \$265 million in Africa. Bulk of the CapEx is going to support the data growth including our backhaul and fiber. Our CapEx guidance for the full year is maintained at \$2.2 to \$2.4 billion which includes about \$800 million with a plus or minus \$100 million for Africa. On the balance sheet front, the company accounted for an additional long term debt of Rs. 64.45 billion reflecting the payables to the DOT that is the Department of Telecommunications in India for a spectrum that was secured in the February 14 auction and which has been allotted to us in September. In the next quarter, we need to account for another Rs. 64.68 billion on allotment of the 900 megahertz spectrum.

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As of end of September, the company had a net debt of \$10.1 billion and the net debt to EBITDA ratio on an annualized basis stands at 2.06 times. Including the November allotment of the 900 megahertz spectrum, net debt would then be around \$ 11.1 billion and the net debt to EBITDA ratio would still be fairly comfortable at 2.2 times. With these remarks I would now like to hand over back to the moderator for conducting the Q&A part of this earnings call.

Shareena - Moderator

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Due to time constraints we would request if you could limit the number of questions to two to enable more participation, hence management will take only two questions to ensure maximum participation. Participants who wish to ask questions may press * and 1 on their touchtone enabled telephone keypad. On pressing * and 1 participants will get a chance to present their questions on a first in line basis. To ask a question participant may please * and 1 now. The first question comes from Mr. Suresh Mahadevan from UBS, Singapore. Mr. Mahadevan. You may ask your question now.

Suresh Mahadevan - UBS - Singapore

Thanks for the opportunity and congrats on good data growth. My first question is related to Africa. I think clearly Africa thing seems to be getting a lot tougher than we expected. Certainly, I think whether you look at revenues, EBITDA, so I just wanted to understand what is the medium-term strategy here in terms of what are you aspiring to do because clearly this has been a big drag on the consolidated performance. That is question number one, would love to hear from Christian his thoughts. The second question is on India. I mean, clearly, the data continues to grow. I just wanted to understand whether the voice pricing which saw a temporary blip this quarter whether that will resume because clearly, there is still a big gap between the headline rack rates versus the actual realized rate and if this is a trend, which we intend to continue because clearly, I mean, while data is growing, I think voice is still 80% or a vast majority of the mobile revenues. Thank you so much.

Christian De Faria - Chief Executive Officer - Africa - Bharti Airtel Limited

If I may address the question on Africa. I would not think that Africa is to be tougher than we expected. I think there is a need in Africa to address a lot of investment in not only in CapEx, I mean, in this quarter we rolled one thousand 3G e-nodeBs, compared to 250 in the previous quarter. There has been an enormous investment in people, in system, in procedure, in go-to-market strategy. As you know in Nigeria we have been banned on promotions for more than six months, this has definitely taken a toll if you want to know on our voice revenue and on our growth and Nigeria was a market where we had lot of growth in Q3 and Q4 last year, so I think there we had seen a little slowdown. On these results, the impact is due to environmental and industry aspects in major markets like Nigeria due to ban on promotions, and Ghana and Sierra Leone due to Ebola crisis. Due to this we have been deprived on high value customers and high value minutes in West Africa. Currency depreciation in Ghana, Kenya, Malawi and other French-speaking countries which are pegged to the Euro, have led to revenue weighted currency depreciation of 2.8% during the quarter. We have put a lot of new enablers in place for growth in Africa and we have done the required investments. In medium and long term the strategy for Africa would be premised on the success story in Airtel Money, the success story in data is really a proof that we have been doing the right things in many markets. We are leading in many markets in Africa, definitely the voice is one of our biggest if you want a priority and growing faster than the market. Investments in the brand are proving to be very useful to gain momentum, and the last nine months have seen massive restoration in our operation, people, system and platform, so I am sure we have a very good platform to move forward on a more positive note going forward.

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

What I would say is that if you look at it in two parts one is from a long term perspective I think it is quite clear and we have maintained this consistently that the voice realizations are at an unsustainable level and that they need to keep moving and I think that is something that we stand by. I think in this quarter you will see

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some impact of a seasonal effect which has led to some mix in the way that our pricing actually operates as a result of which there has been some pressure and secondly there have been some competitive pressures which have resulted in some voice pricing coming off, like I said, I said this couple of quarters ago you will keep seeing ups and downs across quarters. I think the key issue really is are we growing our revenue faster and how is that translating in to margin and I think that is what we have focused on, so we keep calibrating what we need to do in terms of volume and rate in order to be competitive in the market.

Suresh Mahadevan - UBS

Thank you so much Gopal and all the very best.

Shareena - Moderator

Thank you very much Mr. Mahadevan. The next question comes from Mr. Sachin Gupta from Nomura Singapore. Mr. Gupta you may ask your question now.

Sachin Gupta - Nomura - Singapore

Yes, thank you. Firstly, the impact on Africa, Christian, so if I understand the answer from the last one, you're saying it's just a lack of investment issue for you to repair the performance in the African business. So was just wondering can you comment on what's happening on the pricing front, the regulations, and even the other cost structure, doesn't seem like we're finding much stability there as well. So any thoughts on that would be great and secondly, Gopal, just on the Indian data story, obviously, percentages look fantastic, but there is a potential risk of a new price coming in next year. I mean we can debate that separately I guess, but perhaps does it make sense to be sort of price conscious on data now and does it make sense actually to cut prices to add more and more customers or is that a big no-no from your perspective?

Christian De Faria - Chief Executive Officer - Airtel Africa

Regarding the situation in Africa I want to say that there was a lack of investment for our situation. I must say that in the last 12 months we have been beefing up really massively the investment in infrastructure especially around data, in the brand, in the distribution network, in putting new platform We have to bear in mind that for the environment, there is not much regulatory intervention in terms of pricing except in few markets where we have been faced with some regulatory issue. But overall I must say it is not only unique to Airtel when it comes to regulatory intervention, so I would say I am very convinced with the investment and promise of investments to be steady going forward and that we are really doing the right investment and it positions for us better days ahead. In terms of voice for certain conditions we had to be more aggressive in some markets due to competitive pressures, but we continue to be number one in the market. There is a clear strategy on voice on pricing and how we improve by EBITDA segmentation. I think that in the past we have not invested in some areas, and have now focused on better tools to enable sales & distribution, so I think we are getting there but it is a massive restoration Furthermore there is investment in people which was one of the main priority in my first nine months and there we have seen a massive effort by bringing more talent in our operation.

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Sachin, to your question on whether we need to be more aggressive on data pricing, I think, firstly if you look at our data pricing today, it is amongst perhaps the lowest in the world at 0.23 paise or 0.24 paise per megabyte, which is under \$3 or just over \$3 per gigabyte. The second thing is that it is not one country. So if you look at what is happening in markets like Delhi, markets like Bangalore, we have on the one hand, many parts of the city that are quite congested because of the constraint in spectrum and equally in certain other parts of the city, you have a fairly empty site. So data is not like voice, which is kind of uniform across. Across circles as well you see the same trend. So you know the circles like Bihar you will see some serious congestion in Patna, whereas you travel out of Patna, you will see a lot more free capacity. The third factor is that the economics of 4G because of the efficiency of the electronics tend to be a little bit better and of

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course the ecosystem is not evolved enough, but the economics are much better because they use those equipments use much less energy and much less and have a greater capacity. So if you look at our 4G pricing, we have been a little more aggressive there, particularly when it comes to larger bundles so we get a higher commitment of ARPU and put in a lot more data as a consequence we are far more aggressive on 4G. It is kind of a mix thing where you got to play the pricing by different geographies and by looking at commitments, but yet ensure in the context of a limited spectrum situation, how do you maximize the customer experience. That is an equally maximized growth. I think those are the trade offs.

Sachin Gupta - Nomura - Singapore

Thank you.

Shareena - Moderator

Thank you very much Mr. Gupta. The next question comes from Mr. Srinivas Rao from Deutsche Bank, Mumbai. Mr. Rao you may ask your question now.

Srinivas Rao - Deutsche Bank - Mumbai

Yes. Hi, thank you very much. My first question is on Africa. Just two questions here. The voice usage has fallen quite significantly in terms of growth. Christian did mention that you were banned from running promotions, but I believe even the leader was under same situation, particularly in Nigeria. So if you could help us understand what could be the growth in voice usage in a slightly medium to longer term that will be helpful? You also mentioned in the opening remarks that non-voice will now be the bedrock for growth, is it fair to assume that it will be data-led growth and voice is likely to be playing a slightly smaller role than it was earlier expected in Africa. That's my first question. The second one is you mentioned can I get a sense of this news report where the incumbents have collectively written to the government postponement of the upcoming spectrum auction. I mean, what is the perspective and the thoughts behind that? Thank you.

Christian De Faria - Chief Executive Officer - Airtel Africa

Thank you very much. Let me address your question on Nigeria We were not the only one affected in the voice decline in Nigeria and so that means of course that other operators were also affected. Etisalat was the only one which has not been affected has been aggressive enough to capture this momentum. By the way, the ban on promotion has been lifted today, so that means we do hope this will augur well for growth in Nigeria Also we have not declined in proportion compared to our competitors in this market. So I think we have all the strategies of product now to regain the momentum. In voice, our strategy may have not been in one or few markets, adapted to the condition and we have been really adjusting in the last two to three months a lot of strategy around the customer centric organization and a segmented approach Data growth I must say is a good story. You have to understand that we came from a very low side two years ago, and I must say that in every market data is representing a growth momentum and I think we will definitely continue to invest in 3G as a majority of the spend is around 3G and transmission for the 3G. So I must say as we have a lot of strategy in terms of pricing of data to make sure we are not only mark-to-market, but are also driving the right vendor with the right pricing for the right segment. So I must say overall in some of the data markets, we will continue to be very aggressive and especially as you know there is a penetration of smart phones still relatively low in the country where we operate and we have a very nice strategy put in place and we will really get momentum here.

Srinivas Rao - Deutsche Bank - Mumbai

I understand, Christian.

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

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Srinivas, I think on the Spectrum issue I mean the TRAI has made it abundantly clear, the authority made abundantly clear that in a seriously supply constraint auction, it is going to be seriously damaging for the sector, for the economy and for just the simple rollout of broadband networks, because artificially high prices will be paid in the context of anyone who could come and actually upset the applecart because if you look at the spectrum that is getting auctioned, so take a circle like Karnataka 14 megahertz of 900 spectrum will be auctioned and only 1.8 megahertz of 1800 auction of spectrum or take Tamil Nadu 6.2 megahertz of 900, Kerala 12.4 megahertz with only 1 as a backup 1800. Now the consequence of this is that you are going to have a situation where in our circles for example, Rajasthan is 12.4 megahertz of 900, I mean, we could potentially be driven by somebody just wanting to come and actually create problems. So I think that is the context in which the authority has made this clear to in their paper and that is the context in which we are saying give us an auction, but give us a fair auction, put in more spectrum, put in abundant spectrum, so that the right prices are discovered.

Srinivas Rao - Deutsche Bank - Mumbai

Okay. Understood. I mean, can I just follow through, why was there a delay from the government in allocating the previously auctioned spectrum, which I think most companies got it quite late in the day? And is there an adjustment to the price for the delay in allocation of the spectrum of the government?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

I think there are two different issues here. One is the date of the NIA where the 20-year meter starts and that is really around the time the spectrum came in so that does not change anything in terms of the amortization of spectrum, but the problem that we have is in markets like Delhi, where we had 8 megahertz of 900 and we picked up 6 megahertz in the auction, we have to retune our entire network. We had to retune our entire network because now you would operate the 2 megahertz less, number one. Number two is that the frequencies are swapping so the frequency that you are having is actually more on the Vodafone and vice versa so many of our in building solutions all of that equipment needs to be retuned, it takes time. So we have said very clearly that this is going to take six months and the fact is that when we won these spectrum we should have got the spectrum of 1800 six months ago. That would have helped us tune the networks so that when we made the shift, we are not going to have a situation where customers see millions of drop calls, the network does not work, this is a nightmare situation we are staring at, which is the context in which we have written the second letter to say give us more time. I mean, this is just that the government DoT has not for whatever reason that is known to them, delayed the allotment of the spectrum.

Srinivas Rao - Deutsche Bank - Mumbai

Okay, but that spectrum when they auctioned it was available with DoT to actually give it out, right?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Yes, absolutely.

Srinivas Rao - Deutsche Bank - Mumbai

Okay. Thanks, this is helpful, thank you so much, Gopal.

Shareena - Moderator

Thank you very much Mr. Rao. The next question comes from Mr. Rahul Singh from Standard Chartered Securities, Mumbai. Mr. Singh you may ask your question now.

Rahul Singh - Standard Chartered Securities - Mumbai

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Yes. Hi, my questions have been answered, so thank you.

Shareena - Moderator

Thank you very much Mr. Singh. The next question comes from Mr. Rajiv Sharma from HSBC Securities, Mumbai. Mr. Sharma you may ask your question now.

Rajiv Sharma - HSBC Securities - Mumbai

Yes. Thank you so much for the opportunity. I have just three questions. First is, Gopal, you signed a contract with Ericsson on the LTE side, which you specifically mentioned FD-LTE. So if you can provide some color where you want to launch FD-LTE and by what time and how do you want to segment the market? Second is, you have been talking about congestion in metro markets and few cities. So, in your view, till how much more time this 5 megahertz of data spectrum is enough for you and by what timeframe you think you need another 5-megahertz in some of your markets? And the last one is, 3G has been primarily taking the loading route by when do you think Bharti will start needing pure 3G towers or you may go with a blended 2G plus 3G, but more with a 3G focus for the 3G frequency coverage because it is 2100 and 3G is in markets where you have 900 coverage? That is it from my side.

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Rajiv thank you for those questions. I am afraid I would not be able to comment on our plans on FD-LTE and 4G. You do know that we have picked up spectrum, 1800 spectrum contiguous spectrum from several circles, Karnataka, Andhra Pradesh, Tamil Nadu, Kerala, and some of the eastern circles, we picked it in Assam, etc., now therefore it gives us the capability to launch 4G and FD. We are watching this space carefully to trigger our plans in the context of how devices in the ecosystem develops, but I am afraid, I would not be able to share specific plans with you. Coming to your second question on congestion like I said, I think the challenge is that if you take a market like Delhi and I do not know if you have been to Delhi recently, you do see a lot more dropped calls on our network. This is fundamentally because of the congestion that we are seeing in certain parts of the city and it is not all across and the challenge here is that whilst there is some parts in the city which are congested, there are others which are not and we have two problems here, one is the site that we have gets shutdown often because customers have or the people wrongly have misplaced notions of what emissions do and the second of course is the fact that there is a lot more data growing through certain sites. So I would say that in the large part of the country, we do not have a problem, really only in cities like Delhi and Bangalore in certain pockets where we do and in Bangalore it is a little bit better because we have our 4G spectrums and we are able to upload. I think primarily our entire 3G has been through loading and it would continue to be that way for a longer period of time, and we will see in the specific locations what we need to do.

Rajiv Sharma - HSBC Securities - Mumbai

And Gopal, another question was on till what time you think five megahertz is fair enough to accommodate data growth and when do you think you need another five to accommodate data growth in the same service, maybe 3G?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Our view is that and we made that again clear in the letter that we wrote, we want abundant spectrum to be made available. We want a big bang auction. So we can pickup spectrum at the right prices and prepare for eventualities because at the end of the day you must remember that in the next you take a five to seven year timeframe data is going to grow hundred fold. So volumes will grow and we will need a lot more spectrum. At the end of the day the laws of physics will tell you that you just need more spectrums, you cannot run it on 5 megahertz, it does not happen anywhere in the world.

Bharti Airtel Limited Second Quarter and Year Ended September 30, 2014 Earnings Call**Rajiv Sharma - HSBC Securities - Mumbai**

And the last one, do you think, structurally, I don't want CapEx guidance for FY16, but structurally the India CapEx should be moving up, given that you will still need some investments in 2G plus 3G backend and 3G equipments?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Our overall guidance we have already given for this year, and we will have another conversation in January about following year.

Rajiv Sharma - HSBC Securities - Mumbai

Okay. Thanks a lot. All the best for coming quarters.

Shareena - Moderator

Thank you very much Mr. Sharma. The next question comes from Mr. Shobhit Khare from Motilal Oswal Securities, Mumbai. Mr. Khare you may ask your question now.

Shobhit Khare - Motilal Oswal Securities - Mumbai

Good afternoon and thanks for the opportunity. My first question is on the DTH business. So we have seen very strong EBITDA performance here the last few quarters, but CapEx also seems to have increased, both in absolute numbers as well as per gross addition. So just wanted to understand what could be the reason for this? Second, for Africa, could we get some estimate of the possible rental impact on EBITDA for the towers considered as held for sale? And lastly any update on the Loop deal?

Nilanjan Roy - Chief Financial Officer - India & South Asia - Bharti Airtel Limited

Shobhit, on the DTH CapEx I think there is nothing unusual, it's just higher gross adds and we also put CapEx for seasons before the Diwali season, so we ordered more boxes. So therefore, the total CapEx if you divide by gross adds probably that number we are looking at the size. So there is nothing unusual in the CapEx. The run rates are the same. On Loop, Gopal you want to.

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

On Loop, as you said, we have signed the definitive agreement, but until we get regulatory clearances, I think there would not be much more to add.

Shobhit Khare - Motilal Oswal Securities - Mumbai

And the result on the African towers?

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

Based on the African towers arrangements first of all, in all the ten countries where they have announced the arrangements, the agreements formalities of approvals and execution are still going on. Obviously from the day in each of the countries from the dates, they are all completed the actual transactions will be consummated and it will be given effect to on ground and in the books. So at this point of time, not possible to share any forecast of what is the financial impact of each one of these, but very roughly speaking, I think it is I could share with you that we will have long-term lease contracts with both Helios and Eaton in these ten countries. We will have access to a dedicated person of the towers under these long-term lease contracts with both the parties in all the countries and to the extent that we have taken our long-term leased back they

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will be considered as finance lease and therefore the accounting would follow some of these commercial arrangements. Overall as we disclosed, before, we are aiming for neutrality on profit before tax as a result of these transactions and as far as the in fact between the lines on whether it is EBITDA, EBIT, etc., they will vary from country to country and I am sure we will share the details as and when fine tuned and as and when completed.

Shobhit Khare - Motilal Oswal Securities - Mumbai

Thank you so much and all the best.

Shareena - Moderator

Thank you very much Mr. Khare. The next question comes from Mr. Pranav Kshatriya from Edelweiss, Mumbai. Mr. Kshatriya you may ask your question now.

Sandeep - Edelweiss Securities - Mumbai

Hi Sandeep here from Edelweiss, thanks for taking my question. Sir I have just, most of my questions have been answered. Just one bit of small question from my side, from what I felt, these auctions which are going to come looks like because of shortage of spectrum there will be very significant amount of competition which will happen, so what your sense after getting into an aggressive bidding, don't you think that our data rates will have to go up significantly to maintain our current level of margins and profits because we are already at very low data pricing?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

I think it is a bit premature to say what will happen in the auction because we don't still know exactly how much spectrum will come up. We don't know what all spectrums will come up. We don't know whether there will be more 2100 spectrum, we don't know whether in fact the TRAI has suggested more spectrum of 900 to come up and vacating, defense spectrum with 2100 so I think it is a bit premature to say what exactly will happen. All we are saying is that at this point in time the amount of spectrum that is being that is that we know will definitely come up for auction is too less and that is a clear supply constraint and that needs to be fixed.

Sandeep - Edelweiss Securities - Mumbai

Thank you.

Shareena - Moderator

Thank you very much Mr. Kshatriya. The next question comes from Mr. Sunil Thirumalai from Credit Suisse, Mumbai. Mr. Thirumalai you may ask your question now.

Sunil Thirumalai - Credit Suisse - Mumbai

Yes, thank you. Most of my questions have been answered. Just one question on your comment on the voice pricing in India, I think we have been talking for a year or so now about pricing power having to return and your expectation that the long-term prices should go up. But if you were to rewind back a year from now and see I mean, in hindsight, we have seen just about a 2% increase in voice pricing on a YoY basis, I am not talking about seasonal changes. Would you say that the actual realized price movement has been less than what you would have set out to a year ago? And given that the low-hanging fruit in terms of tariff changes would have been done by now, I mean, do you think that the following 12 months given if the industry situations remain the same they were for the last 12 months, will it be as much or can it be higher? Thank you.

Bharti Airtel Limited Second Quarter and Year Ended September 30, 2014 Earnings Call**Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited**

I think I explained this earlier on voice pricing, which is I think the underlying trend or the underlying future for voice realization has to be only one way and that is upwards and at these levels it is unsustainable. We still believe I think as was pointed out earlier, that there is a clear opportunity to reduce discounted minutes and there is a big gap between discounted minutes and headline pricing. I think there is no question about that. We will continue to see any scope to actually do that while keeping in mind competitive pressures obviously some seasonality elements in this quarter so you know that should be factored in but we will keep watching what happens to our position in the market even as we are committed to actually moving up the voice pricing but beyond that I would say at the end of the day we are here to sort of see what is the best way to calibrate volume and rate in order to drive revenue growth.

Sunil Thirumalai - Credit Suisse - Mumbai

Okay, thank you for that. Just one last question, on the data business in India, is there any way you can give some idea to us on how the profitability is or is it adding to profits or are the margins lower than the base business or higher than the base business, and I asked because this is now a meaningful, material part of the business and it is growing fast. So how should we see the impact of the data growth on the margins? Thank you.

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

See I think the only thing I would say is remember bulk of our data investments go on to existing towers and so that is a massive advantage an incumbent operator like us, because there is a marginal cost to putting in additional electronics in a tower, a marginal cost to additional energy and the rentals and therefore even though the pricing is low with adds to marginal EBITDA. The second thing that you must know is the data whatever you get as the gross revenue falls straight through the net revenue and that is the second advantage of data. So that is how I see it.

Sunil Thirumalai - Credit Suisse - Mumbai

Thank you.

Shareena - Moderator

Thank you very much Mr. Thirumalai. The next question comes from Mr. Sayantan Bhowmick, PineBridge Investments, Mumbai. Mr. Bhowmick you may ask your question now.

Sayantan Bhowmick - PineBridge Investments - Mumbai

Hi, I just wanted to ask a couple of questions, one was on Africa. So far, we have invested close to about Rs.85,000 Cr in Africa, if I am not mistaken. Just wanted to understand, is there some sort of a deadline as to when do we see some amount of breakeven in Africa? Is there a deadline? And what happens if that deadline is not met? Is there any internal deadline in terms of Africa turnaround and what happens if that deadline is not met? Second question is I wanted to understand whether the economic interest of SingTel plus Temasek is higher than the Mittal family or vice versa?

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

Bhowmick, I take the question on Africa, as far as Africa is concerned, it is well known that it is one of the most strategic parts and for all practical purposes, if you look at the way Africa is showing signs in terms of development of the market whether it is in terms of the internet stuff or whether it is M-commerce you can

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see that the market is rapidly evolving and certainly I think the situation on the ground as far as typical voice is concerned is different from India because it is not that kind of a densely populated kind of situation like we have in India. But all said and done as far as Africa is concerned, we are confident despite quarterly aberration we remain absolutely confident and optimistic about the opportunity in Africa and our strategy is to continue to play on all the fronts which is voice, data and M-commerce and you would see are really progressing on these fronts and for that matter if you see even in this quarter and if you compare it with the matrix of the last year you would see that they have definitely grown a customer base or volume and the data and the M-commerce and the quality of the network and so and so, as far as we are concerned we remain optimistic about the Africa opportunity.

Harjeet Kohli – Group Treasurer - Bharti Airtel

Hi this is Harjeet here. I think from a shareholding perspective broadly there are three big blocks, one is SingTel, one is the promoter family and the other is the public, institutions were domestic and overseas. Roughly where it comes in is one-third each, but clearly as of now SingTel has taken about 32 % and slightly lower than the overall economic stake that the family has.

Sayantana Bhowmick - PineBridge Investments - Mumbai

Okay, thank you. Again, on Africa, I mean, just trying to understand, is there -- have you some internal -- most of the investments are still funded I would say by and large significant portion by India cash flow. So is there some internal estimate as to when Africa will be self-sufficient or if we can expect some returns from there?

Harjeet Kohli – Group Treasurer - Bharti Airtel

This is Harjeet here again. Srikanth was mentioning earlier that the directional trend is pretty forward. It is a different matter that the expectations were probably for this whole set of assets to do slightly better than where it has been right now but there is no directional change in the way things have happened. So that is number one and by the same token we can see looking at the overall funding situation at a free cash flow a negative situation what Africa used to have a first quarter free cash flow negative gap which used to be funded from either external debt or funding from the Indian business overtime has reduced overtime. This particular quarter it is probably down to \$50 to \$60 million per quarter. So I do not know if you got a chance to meet us in the last two three conferences, we did mentioned that we are seeing in the next two to four quarters reasonable visibility continuing with the investment that Christian earlier mentioned that we might be breaking even on the free cash flow. Now it could take two or it could take five but the broad thing is the visibility seems to be there on that count. So at least that is the first pit stop. It becomes a self funding set of assets and the next pit stop is obviously on some of the other parameters on the operational side including EBITDA margins and PAT breakevens.

Sayantana Bhowmick - PineBridge Investments - Mumbai

Right, thank you.

Shareena - Moderator

Thank you very much Mr. Bhowmick. Due to time constraint we request you to kindly limit the number of questions to one. The next question comes from Mr. G. V. Giri from IIFL Capital, Mumbai. Mr. Giri you may ask your question now.

G. V. Giri - IIFL Capital - Mumbai

Hi, Gopal, this is about your 3G in 900-megahertz, you seem to have hinted at beginning it in a few cities. What are the plans around that in terms of general color and can it extend beyond cities into some of the geographically bigger circles and at what sort of timeframe?

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Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Giri your question is that are we going to launch 3G on 900 is that your question?

G. V. Giri - IIFL Capital - Mumbai

Right and in cities only or it might be in some of the geographically bigger circles also overtime?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

We have got basically Spectrum that we bought in Mumbai, which is 900 megahertz and there we know we have a full 1800 network so in certainly in Mumbai as you know we have the capability to launch 3G on 900 as soon as we get for spectrum there. The other place where we picked up 900 was in Delhi which was 6 megahertz as you know we have an operating network on 8 megahertz of 900 that will come down to 6 and of course in Calcutta we picked up 7 megahertz of 900 megahertz again in Calcutta you know that we have a 900 network. So if we had to launch 3G then that will need to be re-tuned. Some of these decisions will happen over a period of time and at what point in time depends on how much the traffic grows and at the end of the day you must know that these technologies are now agnostic across GSM and 3G and therefore we will have to take that call as and when the we come to it.

G. V. Giri - IIFL Capital - Mumbai

And in other circles where you have 3G, where you have 900, in your estimate, does it make sense to think about that change from 2G to 3G, the bigger circles geographically?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Spectrum is not liberalized so when that spectrum get liberalized those opportunities.

G. V. Giri - IIFL Capital - Mumbai

Assuming that you renew? Assuming that you have successfully renewed?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

It is speculative right now because it is not. I mean the spectrum is not even liberalized it has not come up for auction so you know these things like I think in the next few months we will have spectrum being auctioned hopefully once we get the supply side right in circles like Karnataka, AP, Rajasthan, Punjab many of these circles where we have 900 megahertz and so once we pick it up in the auction we will come to that.

G. V. Giri - IIFL Capital - Mumbai

Sure thanks a lot.

Shareena - Moderator

Thank you very much Mr. Giri. At this moment we will take one last question from Mr. Sanjay Chawla from JM Financials Mumbai. Mr. Chawla you may ask your question now.

Sanjay Chawla - JM Financial - Mumbai

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Hi, good afternoon. Thank you for the call. My first question is on your Africa debt that you have reported in your segmental reporting. This number seems to have come down. It has actually come down by almost Rs.40 billion. So can you just provide some reasons what is the reason for the decline other than probably the currency movements of Euro or Swiss denomination bonds? Second question is, Gopal, you mentioned, while explaining VRPM drop in India, voice RPM drop in India, that there was some uptick in competitive pressures. Can you just elaborate on where this pressure might be coming from? Is it the competition amongst the Top 3 guys, the leaders or is it that the Tier 2 guys, you are seeing renewed aggression from like Reliance, Tata or Aircel, or is it a company like Uninor where you are seeing more competition from? And the third question is, a quick question is on Telemedia revenue, was not able to reconcile the reported revenue with the average customer base and the ARPUs, so there is some extra revenue which is reflecting there. Can you just explain what this revenue is and is it a one-off thing or is going to continue growing?

Nilanjan Roy - Chief Financial Officer - India - Bharti Airtel Limited

So I will take the telemedia yes, we do the ARPU into the customer multiplication there is a gap. We also have a business of Telesonic which is actually another company and it is a capital company which provides the infrastructure services to telemedia so I think that is a difference between the consolidated number you are saying and the telemedia derived number in fact.

Sanjay Chawla - JM Financial - Mumbai

This would get eliminated from consolidation.

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

Yes it does. It's a 100% subsidiary. Sanjay and your question on where there pressure is coming from I mean it is not one answer as you know in the market which is diverse like India with different circles, different competitive thresholds, different operators so I do not know whether I can you a generic answer like that.

Sanjay Chawla - JM Financial - Mumbai

My question is basically, is there anything new or different that you are seeing in the market, which is calling this voice RPM decline?

Gopal Vittal - Joint Managing Director and Chief Executive Officer - India - Bharti Airtel Limited

No like I said I think part as I had explained on account of seasonalities and the other part is in account of actually making sure that we are competitive in the market. So it is not that there is anything new or different is just that these things are dynamic and they keep changing every day.

Sanjay Chawla - JM Financial - Mumbai

Okay. On the Africa debt?

Harjeet Kohli – Group Treasurer - Bharti Airtel

Sanjay this is Harjeet here. Which reference are you talking because normally the schedule of net debt and all that is given on a consolidated basis? I am just trying to think where are you referring to where you say the African net debt has probably gone down?

Sanjay Chawla - JM Financial - Mumbai

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Sir this is the consolidated segmental results that you file with the stock exchanges so below the table you have given the borrowings for acquisition of Africa operations and other borrowings of Africa operations so the opco debt plus the acquisition debt you given the combined number?

Harjeet Kohli – Group Treasurer - Bharti Airtel

So maybe Srikanth, if you can talk about the conversion and translation because of the currency movement?

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

Since you are looking at in Rupee term basically it is tracked at Rupee conversion rates. So essentially the borrowing at the Africa level that is in the operating companies has not undergone any significant change during the quarter and if at all any event could happen, it could happen only after that tower deal is completed.

Sanjay Chawla - JM Financial - Mumbai

So are you suggesting that this entire decrease in borrowing in rupee terms is due to currency movements?

Harjeet Kohli – Group Treasurer - Bharti Airtel

I mean actually the only reason it can change so separately I will also link up Sanjay to understand which numbers you are talking about as an example I can give you two references, if you see the borrowing let us say Reliance in Euros that was earlier valued at last quarter valued at \$1.365 to the Euro and now because Euro has depreciated in a way the market it has gone down the Euro has come down at about 1.265 so about 9%-odd benefit there on the Euro borrowings. We have got two large Euro denominated bonds outstanding. Similarly on CHF the earlier quarters closed around 0.9 and this time is running at 0.96 - 0.97 another 6% - 7% benefited CHF of issuances. So the translation could be leading to this. I am not still able to trace where you have picked up these figures from so that I can reconcile but broadly that is the only reason. There is no fundamental underlying reduction of any net debt at any of these entities. It was roughly flat. I can tell you. We do not disclose the number separately. So I cannot talk specific numbers. It was flattish for all of these opcos. Airtel Netherlands is slowly going down because the cash flows in India are being able to repay some bit of debt specifically the foreign currency debt so that we reduce the risk of to file as well.

Sanjay Chawla - JM Financial - Mumbai

Okay may be I will take it off line, thank you very much for your answers.

Shareena - Moderator

Thank you very much Mr. Chawla. At this moment I would like to handover the call proceedings to Mr. B. Srikanth for the final remarks.

Srikanth Balachandran - Global Chief Financial Officer - Bharti Airtel Limited

Thank you ladies and gentlemen for an interesting round of question and answers. As we said before I had some of colleagues were sharing their views so far the year has shaped up well for Airtel on the top line front in India. The underlying profitability has definitely improved due to the benefits of operating leverage and we would certainly like to see improved profitability in Africa as well with acceleration of revenues in the coming quarters. Our CapEx as we said earlier is supporting our growth plan especially on the data front. With these remarks I would now like to end this call and we look forward to talking to you once again next quarter. Thank you.

Shareena - Moderator

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Thank you very much sir. Ladies and gentlemen this concludes the conference call. You may now disconnect your lines. Thank you for connecting audio conference service from Airtel and have a pleasant evening.